

**CALENDAR ITEM
C63**

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PRC 735.1
PRC 3314.1
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**CONSIDER APPLICATION TO RE-ENTER SEVEN EXISTING WELLBORES ON
STATE LEASE NO. PRC 735.1 TO NEW BOTTOM HOLE LOCATIONS
ON ADJOINING STATE NO. LEASE PRC 3314.1; AND AMENDMENT OF
SECURITY REQUIREMENT (PERFORMANCE BOND),
WEST MONTALVO FIELD,
VENTURA COUNTY**

APPLICANT, LESSEE AND OPERATOR:

Venoco, Inc.
Attn.: Mr. Stephen A. Greig
6267 Carpinteria Avenue, Suite 100
Carpinteria, CA 93013

AREA, LAND TYPE, AND LOCATION:

Oil and Gas Lease No. PRC 735.1 was originally issued by competitive bid to Standard Oil Company of California (Chevron) on June 30, 1952, and contains approximately 220 acres offshore Ventura County; Oil and Gas Lease No. PRC 3314.1 was originally issued by competitive bid to Shell Oil Company (Shell) on July 2, 1965, and contains approximately 5,430 acres offshore Ventura County. Lease No. PRC 3314.1 completely surrounds Lease No. PRC 735.1 (Exhibit A, attached hereto). Through a series of assignments, the present lessee and operator of both leases is Venoco, Inc. (Venoco).

BACKGROUND:

The onshore portion of the Colonia reservoir was discovered in 1948 with the drilling of the McGrath 4 well. Development of the offshore reservoir began in 1953 on Lease No. PRC 735.1 and all but two of the 10 development wells were drilled by 1966. Lease No. PRC 3314.1 was issued in 1965, and the first commercial well 3314-1, which was drilled in 1985 as a farm-out by Chevron, has produced steadily since it was drilled. Both leases are developed from onshore

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locations (Exhibit A, attached hereto). The lease location contains surface production facilities, including a processing facility and access to onshore pipelines.

Berry Petroleum Company (Berry) was assigned the lease from Shell in 1992 and presented a development plan that consisted of drilling two additional wells, 3314-F2 and 3314-2. That plan was approved by the California State Lands Commission (Commission) in 2005. Berry then assigned the lease to Venoco in 2007, and Venoco drilled well 3314-F2 in July 2007 and well 3314-2 in December 2008. Oil production from these two wells continues to produce revenue to the State.

PROPOSED PROJECT:

Venoco now proposes to re-enter seven existing idle or low production wellbores on Lease No. PRC 735.1 and drill to new bottom hole locations on conterminous Lease No. PRC 3314.1. The surface locations for this project are all on existing onshore well pads associated with Lease No. PRC 735.1 where Venoco currently has ten wells on artificial lift.

The goal for this project is to increase oil production and further delineate and develop Lease No. PRC 3314.1. The completion target is the Colonia Zone of the Sespe Formation at approximately 11,000 to 13,000 feet true vertical depth, and the proposed bottom-hole locations will extend from 1,200 to 4,000 feet offshore.

The estimated time to drill each well is 45 to 60 days. The seven wells will be drilled in sequence, per the development plan, for an estimated drilling duration of 11 to 14 months. Venoco has indicated it will need time to allow for reviewing well data and drilling delays due to rig availability. The project should be completed by September 16, 2016, to comply with County requirements.

Existing pipelines and production headers will be used to transport crude oil production from the wells to the nearby State 735 Tank Setting and Metering Facility. Access to the location will continue to be provided to the site via a private road.

MODIFICATION OF ONSHORE INFRASTRUCTURE:

Venoco meters Lease No. PRC 3314.1 production from the current well located on the beach site through a wet oil meter at the State 735 Tank Setting and uses a second wet oil meter at the Colonia Tank Setting for the two inland Lease No. PRC 3314 wells. The State 735 Tank Setting and Metering Facility meters all production from the two offshore State leases and an onshore private lease. The operation will be upgraded to meter the increase in well production expected

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from this project if approved. The facility consists of a 1,000 barrel (bbl) Lease Automatic Custody Transfer (LACT) shipping tank, a 1,000 bbl LACT reject/overflow tank, a 500 bbl water tank, a 250 bbl water tank, a vertical heater treater, a hot water heater, a gas scrubber, a gas oil separator, a well testing vessel and an emergency flare. Separated oil is then transported via the "Crimson" pipeline to ConocoPhillips, and gas is sold to the Southern California Gas Company.

As part of the Development Project, Venoco has proposed installing new artificial lift equipment at each well and upgrades to the existing State 735 Tank Setting. The upgrade of production facilities includes replacement of the Wet Oil metering Skid V702 to account for the increase in the production from the new wells; replacement of LACT Tank T40 with a new 2,000 gallon tank and replacement of LACT shipping Tank T-41 with a new 2,000 gallon tank and upgrade; and replacement of the PRC 735 Vapor Recovery Unit (this will be achieved by adding two new compressors to the production facilities units). The facilities will continue to be contained within the existing berm and fenced area of the State 735 Tank Setting location.

ENVIRONMENTAL REVIEW

The County of Ventura is the lead agency for the project under the California Environmental Quality Act (CEQA) (Public Resources Code sections 21000, et seq.). In accordance with CEQA Guidelines section 15070, the Ventura County Planning Department determined that this proposed project may have a significant effect on the environment and has prepared a Mitigated Negative Declaration (MND) (SCH #2010121072). The County of Ventura certified the MND on March 21, 2011, and Venoco has agreed to implement the mitigation measures identified in the MND, and included in the Mitigation Monitoring Program (MMP) (Exhibit B, attached hereto), prior to the project moving forward.

Commission staff has reviewed the MND and additional materials submitted by Venoco, as well as conditional use permits issued by the County of Ventura as the lead agency under CEQA. Commission staff concurs with the findings and conclusions reached by Ventura County.

BOND:

Currently, Venoco maintains a \$900,000 performance bond for Lease No. PRC 735.1 and a \$300,000 performance bond for Lease No. PRC 3314.1. Because the proposed re-drills pass through Lease No. PRC 735.1 into Lease No. PRC 3314.1, Commission staff proposes that Venoco increase and combine the performance bonds into a single \$2,000,000 blanket bond or other security acceptable to the State, to guarantee performance by the Lessee of all the terms

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and conditions of the leases and rules and regulations of the State, including the maintenance and abandonment of all structures, wells and pipelines, and their removal at the request of the State upon expiration or termination of these leases (Exhibit C, attached hereto).

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code section: 6804
- B. Public Resources Code sections: 21065 and 15301
- C. Paragraph 13 of Lease No. PRC 735.1
- D. Paragraph 14 of Lease No. PRC 3314.1

OTHER PERTINENT INFORMATION

- 1. A Mitigated Negative Declaration (SCH #2010121072) was prepared by Ventura County and adopted on March 21, 2011, for this Project. The California State Lands Commission staff has reviewed this document.
- 2. A Mitigation Monitoring Program was adopted by Ventura County.
- 3. The Planning Director of the County of Ventura approved the Minor Modification No. LU10-0009 to existing Conditional Use Permit 12, subject to 68 conditions of approval on March 21, 2011. No appeals were filed, and a notice of final decision was issued to Venoco.
- 4. This activity involves lands which have NOT been identified as possessing significant environmental values pursuant to Public Resources Code sections 6370, et seq. However, the Commission has declared that all lands are "significant" by nature of their public ownership (as opposed to "environmentally significant"). Since such declaration of significance is not based upon the requirements and criteria of Public Resources Code sections 6370, et seq., use classifications for such lands have not been designated. Therefore, the finding of the project's consistency with the use classification as required by Title 2, California Code of Regulations, section 2954 is not applicable.
- 5. Upon approval of the Project, Lease No. PRC 735.1 and Lease No. PRC 3314.1 shall each be amended to incorporate the language attached herewith as Exhibit C. The proposed amendments provide that the amount of bond required under the leases has been increased from \$900,000 for Lease No. PRC 735.1 and \$300,000 for Lease No. PRC 3314.1 to a total combined bond in for the amount of \$2,000,000.

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EXHIBITS:

- A. Location Map
- B. Mitigation Monitoring Program
- C. Proposed amendments to Oil and Gas Lease Nos. PRC 735.1 and PRC 3314.1.

PERMIT STREAMLINING ACT DEADLINE:

N/A

RECOMMENDED ACTION:

It is recommended that the Commission:

CEQA FINDINGS:

- 1. Find that a Mitigated Negative Declaration (SCH# 2010121072) and a Mitigation Monitoring Program were prepared by Ventura County and adopted on March 21, 2011, for this Project and that the Commission has reviewed and considered the information contained therein.
- 2. Adopt the Mitigation Monitoring Program, as contained in Exhibit B, attached hereto.
- 3. Adopt the findings of the County of Ventura and the conditions of the approval for the site plan adjustment (Minor Modification No. LU10-0009) to the existing Conditional Use Permit 12 issued for the seven wells.

AUTHORIZATION:

- 1. Consent to the plugback of seven wells on Lease No. PRC 735.1 and the re-drilling of the wells from onshore drill sites into Oil and Gas Lease No. PRC 3314.1, West Montalvo field, Ventura County, provided that all work here approved shall be completed by September 16, 2016.
- 2. Require that, (a) prior to commencement of any work approved by the Commission under this action, Venoco shall submit to the Commission a letter providing a detailed outline of its commitment to correct or remedy the deficiencies identified in the current Lease Process Safety Audit being conducted by staff on the two leases (PRC 735.1 and PRC 3314.1); the deadlines for completion of correction and remedial work, based on the Program priority

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established by the Commission's staff, being as follows: thirty (30) days for deficiencies listed as Priority One, one hundred twenty (120) days for those listed as Priority Two, and one hundred eighty (180) days for those listed as Priority Three; (b) if staff determines that Venoco is not meeting any deadlines provided in this authorization relating to the Lease Process Safety Audit, staff may report the matter to the Commission, and the Commission may suspend or rescind any authorization given hereunder, necessitating the suspension of any work relating to re-drilling; and (c) Venoco shall prepare an Operations Manual for the two leases in accordance with the provisions of Title 2, Sections 2170 et seq., of the California Code of Regulations.

3. Approve the amendment of the above leases regarding the security requirements for the faithful performance of the terms and conditions of the leases as detailed in Exhibit C, attached hereto.
4. Authorize the Executive Officer or his designee to execute any documents necessary to implement the Commission's action.